Cambridge Assessment International Education

Specimen Paper Answers – Paper 4

Cambridge International AS & A Level Accounting 9706

For examination from 2023

Cambridge Pathway

Contents

Introduction

These specimen answers have been produced by Cambridge ahead of the examination in 2023 to exemplify standards for those teaching Cambridge International AS & A Level Accounting 9706. We have selected questions from Specimen Paper 4, Questions 1 and 2.

The marks given are for guidance only and are accompanied by a brief commentary explaining the strengths and weaknesses of the answers. Comments are given to indicate where and why marks were awarded, and how additional marks could be obtained. There is also a list of common mistakes and guidance for candidates for each question.

The specimen materials are available to download from the School Support Hub.

2023 Specimen Paper 04

2023 Specimen Paper Insert 04

2023 Specimen Paper Mark Scheme 04

Past exam resources and other teaching and learning resources are available from the School Support Hub.

Details of the assessment

Paper 1

Multiple Choice — 1 hour

30 marks

30 multiple-choice questions

Questions are based on sections 1 and 2 of the subject content.

Externally assessed

28% of the AS Level

14% of the A Level

Paper 2

Fundamentals of Accounting — 1 hour 45 minutes

90 marks

Four structured questions

Questions are based on sections 1 and 2 of the subject content

Externally assessed

72% of the AS Level

36% of the A Level

Paper 3

Financial Accounting — 1 hour 30 minutes

75 marks

Three structured questions

Questions are based on section 3 of the subject content; knowledge of material from the AS Level subject content is assumed.

Externally assessed

30% of the A Level

Paper 4

Cost and Management Accounting — 1 hour

50 marks

Two structured questions

Questions are based on section 4 of the subject content; knowledge of material from the AS Level subject content is assumed.

Externally assessed

20% of the A Level

Assessment objectives

The assessment objectives (AOs) are:

AO1 Knowledge and understanding

- Demonstrate knowledge and understanding of facts, terms, concepts, policies, procedures and techniques relating to financial accounting and cost and management accounting.
- Apply this knowledge and understanding to a variety of accounting situations and problems, and present outcomes in the most appropriate form.

AO2 Analysis

- Analyse financial accounting information and cost and management accounting information.
- Select, calculate and interpret relevant data and information.
- Communicate outcomes in the most appropriate form.

AO3 Evaluation

- Evaluate financial accounting information and cost and management accounting information to make informed recommendations and decisions.
- Make judgements and draw conclusions based on financial and non-financial data.

Question 1

Question 1(a)

1 **Read Source A in the Insert.**

(a) State **three** advantages of using a budgetary control system. [3]

1 It helps to co-ordinate among departments for allocation of resources.

2 It helps to compare the actual results with the budgets.

3 It helps in communicating among different departments to achieve the optimal result.

Mark awarded = 3 out of 3

Examiner comment

Three clear advantages have been stated.

Question 1(b)

(b) Prepare a statement to show the total flexible budgeted profit.

[4]

	$
Revenue 1120 x 35	151 200
Direct materials 1120 x 2 x 12	(26 880)
Direct labour 1120 x 4 x 15	(67 200)
Contribution	57 120
Fixed overheads	(30 000)
Budgeted profit	27 120

Mark awarded = 3 out of 4

Examiner comment

This question required preparation of a statement to show total flexed budgeted profit, which requires the actual activities multiplied by the budgeted unit cost elements for direct materials and direct labour, absorbing overheads according to the basis provided.

The answer provided calculated the flexed budgeted profit correctly using direct materials and direct labour costs, however, did not absorb the fixed overheads based on labour hours.

Common errors and general guidance for candidates

- using an incorrect basis to absorb fixed overheads
- incorrect treatment of fixed overheads in general
- confusing units of production with units of materials/labour (e.g. kilos/hours)
- using the wrong number of units on which to base the flexed budget.

Question 1(c)(i)

Additional information

Actual costs incurred for May were as follows:

	$	
Direct materials	27 300	2184 kilos used
Direct labour	67 466	4424 labour hours used
Fixed overheads	29 500	
Total costs	124 266	

(c) Calculate the following variances:

(i) direct labour rate [2]

Direct labour rate variance

(4424 × $15) – $67 466 = $1106

Mark awarded = 1 out of 2

Examiner comment

The answer provided has correctly calculated the variance but given no indication as to whether the variance is adverse or favourable.

Common errors and general guidance for candidates

Candidates must note that a clear indication of the direction of the variance should be given (e.g. by stating favourable/adverse or F/A). The use of +/- or brackets is not encouraged.

Question 1(c)(ii)

(ii) direct labour efficiency [2]

Direct labour efficiency variance

(1120 × 4 – 4424) × $15 = $840

Mark awarded = 1 out of 2

Examiner comment

The answer provided has correctly calculated the variance but given no indication as to whether the variance is adverse or favourable.

Common errors and general guidance for candidates

Candidates must note that a clear indication of the direction of the variance should be given (e.g. by stating favourable/adverse or F/A). The use of +/- or brackets is not encouraged.

Question 1(c)(iii)

(iii) fixed overheads expenditure [2]

Overheads expenditure variance

$30 000 – $29 500 = $500

Mark awarded = 1 out of 2

Examiner comment

The answer provided has correctly calculated the variance but given no indication as to whether the variance is adverse or favourable.

Common errors and general guidance for candidates

Candidates must note that a clear indication of the direction of the variance should be given (e.g. by stating favourable/adverse or F/A). The use of +/- or brackets is not encouraged.

Question 1(c)(iv)

(iv) fixed overheads volume. [2]

Overheads volume variance

$30 000 – (1120 × 25) = $2000

Mark awarded = 1 out of 2

Examiner comment

The answer provided has correctly calculated the variance but given no indication as to whether the variance is adverse or favourable.

Common errors and general guidance for candidates

Candidates must note that a clear indication of the direction of the variance should be given (e.g. by stating favourable/adverse or F/A). The use of +/- or brackets is not encouraged.

Question 1(d)

Additional information

The directors have identified that there was an adverse total direct materials variance of $420.

(d) Prepare a statement to reconcile the flexible budgeted profit from **(b)** with the actual profit. [3]

	$
Flexed budgeted profit	*29 120*
Total direct materials variance	*420*
Direct labour rate variance	*1106*
Direct labour efficiency variance	*(840)*
Overheads expenditure variance	*(500)*
Overheads volume variance	*2000*
Actual profit ($151 200 – $124 266)	*26 934*

Mark awarded = 1 out of 3

Examiner comment

This question required preparation of a statement to reconcile the flexed budgeted profit with the actual profit.

The answer provided uses the correct format for a reconciliation statement starting with the flexed budgeted profit and finishing with the actual profit. The actual profit has been calculated correctly using the question data. However, the variances have been treated incorrectly.

Common errors and general guidance for candidates

Information to calculate the actual profit is provided in the question so must be correct. It is common to see candidates simply using their own flexed budgeted profit figure and adding/subtracting variances to arrive at a final 'actual' profit figure simply as an arithmetic process, rather than acknowledging that the difference between the actual profit and the flexed budgeted profit should be able to be accounted for by the variances.

Candidates should also be aware that they need to indicate the direction of the variances in the right way – i.e. when starting with the flexed budgeted profit adverse variances must be deducted from this figure, and favourable variances added to this figure. If the candidate starts the reconciliation with the actual profit figure, then this will be reversed.

Question 1(e)

Additional information

W Limited received orders for goods to be supplied in June from three customers only.

Customers	A	B	C
Units ordered	300	700	400
Unit selling price	$135	$130	$132

The budgeted data for May for the production of one unit remains valid. However, W Limited has to pay an overtime premium of 75% to workers for production in excess of 1200 units in a month.

W Limited is considering two options only.

Option 1 Accept the orders of A, B and C.
Option 2 Accept the orders of A and B only.

(e) Advise the directors which option they should choose.

Justify your answer by:
- showing appropriate calculations (ignoring fixed overheads)
- making reference to non-financial factors.

[7]

Option 1 means working more than the capacity which means efficient use of capacity.
Option 2 means losing a customer which will reduce revenue, profit and may not be good for business's reputation.
Reduced revenue and profit are evident form the following calculations

	Option 1	Option 2
	$	$
Revenue	184 300	131 500
Direct materials	33 600	24 000
Direct labours	84 000	60 000
OT premium	9 000	–
Contribution	57 700	47 500
Fixed overheads	35 000	25 000

Profit	*22 700*	*22 500*

Option 1 should be accepted as it leads to higher profit.

[Total: 25]

Mark awarded = 7 out of 7

Examiner comment

The answer has provided appropriate calculations (although more has been included here than necessary as the question instructed that fixed overheads should be ignored). The example answer also identifies two non-financial factors and arrives at a decision.

Total marks awarded = 18 out of 25

Question 2

Question 2(a)(i)

2 Read Source B in the Insert.

(a) Calculate:

(i) the payback period in years and days

[2]

Years	Cash inflow	Cash outflow	Net cash flow
	$	$	$
1	200 000	140 000	60 000
2	230 000	130 000	100 000
3	240 000	110 000	130 000
4	210 000	100 000	110 000

$300 000 – ($60 000 + $100 000 + $130 000)

= $10 000

($10 000/$110 000) x 365 = 33.18 days

3 years 33 days

Mark awarded = 1 out of 2

Examiner comment

The answer provided calculated the figures correctly but did not round up the days to a whole day.

Common errors and general guidance for candidates

The normal mathematical rule for rounding does not apply when calculating the number of days for payback, therefore it is necessary to always round figures **up** to the next whole day.

Question 2(a)(ii)

(a) Calculate:

(ii) the accounting rate of return to **two** decimal places

[3]

Average profit ($400 000 – $300 000)/4 = $25 000

Average investment $300 000/2 = $150 000

Accounting rate of return =

$25 000 / $150 000

= 16.666%

= 16.66%

Mark awarded = 2 out of 3

Examiner comment

The answer provided calculated the figures correctly but did not round up to two decimal places correctly.

Common errors and general guidance for candidates

It is common for candidates to ignore question instructions regarding rounding, or alternatively not be able to follow the normal mathematical rules for rounding.

Question 2(a)(iii)

(a) Calculate:

(iii) the net present value

[3]

	Net cash flow	discount factor at 10%	Present values
Year	$		$
0	300 000	1	(300 000)
1	60 000	0.909	54 540
2	100 000	0.826	82 600
3	130 000	0.751	97 630
4	110 000	0.683	75 000
Net present value			9 770

Mark awarded = 2 out of 3

Examiner comment

The answer provided used the correct method for calculating discounted cash flows, but the present value for the fourth year has not been calculated correctly. However, the answer arrives at a rewarded OF for net present value.

Question 2(a)(iv)

(a) Calculate:

(iv) the internal rate of return to **two** decimal places.

[3]

Year	Net cash flow $	discount factor at 12%	Present values $
0	300 000	1	(300 000)
1	60 000	0.893	53 580
2	100 000	0.797	79 700
3	130 000	0.712	92 560
4	110 000	0.636	69 960
Net present value			(4 200)

10% + [$9 770 / ($9 770 + $4 200)] × (12% – 10%)

= 11.398%

= 11.39%

Mark awarded = 2 out of 3

Examiner comment

Although the answer provided used the correct method and figures from the previous part correctly, the final answer was not rounded to two decimal places correctly.

Common errors and general guidance for candidates

The example answer has correctly calculated a net present value (NPV) figure which is negative and indicated this by using brackets. It is important for candidates to ensure that they clearly identify the final answer for NPV as positive/negative.

Question 2(b)

(b) Advise the directors whether Z Limited should purchase the machine to manufacture the new product.

Justify your answer with reference to financial and non-financial factors.

[7]

Directors should purchase machine as the payback period (3 years 33 days) is before end of the investment's economic life.

Accounting rate of return is 16.66% which is higher than the cost of capital 10%.

The investment has a positive net present value, i.e. $9 770 indicating higher inflows in present values compared to investment.

Buying a new machine means new supplier who may not be reliable in terms quality and may not offer competitive prices.

Mark awarded = 5 out of 7

Examiner comment

This is an advice question where a suggested course of action is required after discussing the advantages and disadvantages of the scenario provided in the question.

The answer provided has arrived at a decision, making three valid points relating to earlier calculations, however, only made one point relating to non-financial factors.

Question 2(c)

Additional information

The expected cost of the machine, $300 000, includes an import duty of 20%. The import duty has increased to 30% due to a recent unfavourable trade agreement.

(c) Explain the impact of this increase in the import duty on the decision in **(b)**.

Support your answer with calculations.

[7]

Increase in import duty means initial outlay will increase by $25 000. ($300 000/120%) × 100% = $250 000 + 30% = $325 000 – $300 000 =$25 000.

This will have an impact on payback period which will be

$325 000 – ($60 000 + $100 000 + 130 000) = $35 000

($35 000/$110 000) × 365 = 116.13 days which means 3 years 116.13 days– 3 years 33 days = 83.13 more days to payback but still within its economic life.

Accounting rate of return (ARR) will now be

= ($18 750/$162 500) × 100 = 11.538%, still higher than cost of capital of 10%.

Average profit $75 000/4 = $18 750

Average investment $325 000/2 = $162 500

Net present value (NPV) will be

negative $15 230,

$9 770 – $25 000 = ($15 230)

So directors should not purchase this machine due to negative net present value as this is the more reliable method for capital investment appraisal.

[Total: 25]

Mark awarded = 7 out of 7

Examiner comment

The answer provided has arrived at a decision, and supported this with clear explanations of the impact of the increase in import duty. The answer makes valid points using three methods of capital investment appraisal, comparing these with answers from previous question parts.

Total marks awarded = 19 out of 25

Cambridge Assessment International Education
The Triangle Building, Shaftesbury Road, Cambridge, CB2 8EA, United Kingdom
t: +44 1223 553554
e: info@cambridgeinternational.org   www.cambridgeinternational.org